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Intel Chairman Says U.S. Is Losing Edge

One of the founding fathers of the nation's high-technology industry warned in dire terms yesterday that U.S. dominance in key tech sectors is in jeopardy, threatening the country's economic recovery and growth.

Andrew S. Grove, co-founder and chairman of Intel Corp., said the nation's high-tech industries are threatened by the growth of overseas outsourcing.

Speaking via satellite to a global technology summit in Washington, Intel Corp. co-founder and chairman Andrew S. Grove said that the software and technology service businesses are under siege by countries taking advantage of cheap labor costs and strong incentives for new financial investment.

"I'm here to be the skunk at your garden party," Grove said, noting wryly that his remarks coincidentally fell on the same day as one devoted to promoting nationwide screening for depression.

Grove, 67, singled out China and India as key threats. India's booming software industry, which is increasingly doing work for U.S. companies, could surpass the United States in software and tech-service jobs by 2010, he said.

More ominously, Grove said, the software and services industries -- strong drivers of U.S. economic growth for nearly two decades -- show signs of emulating the struggles of the U.S. steel and semiconductor industries.

In the case of steel, U.S. companies never recovered, dropping from nearly 90 percent of worldwide market share to roughly 10 percent. The semiconductor industry, Intel's core business, faced similar challenges in the 1980s, when it began its drop from 90 percent to 40 percent of the world market, Grove said, before aggressive trade

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and other U.S. policies helped it recover and stabilize at about 50 percent.

Grove said that even as the U.S. economy is improving, tech employment is not.

According to industry figures, more than 500,000 technology jobs were lost from mid-2001 to mid-2003. Many of these were due to a contraction of the tech sector after the dot-com bubble burst in 2000.

But Grove acknowledged under questioning that the tech industry itself is responsible for numerous jobs leaving the United States, as firms take advantage of considerably cheaper labor costs in India and elsewhere.

Grove said he is torn between his responsibility to shareholders to cut costs and improve profits, and to U.S. workers who helped build the nation's technology industry but who are now being replaced by cheaper labor. Grove did not offer a solution, saying only that the government needs to help decide the proper balance between the two. Otherwise, he said, companies will revert to their obligation to increasing shareholder value.

Recent estimates from financial consulting firms paint a stark picture of "offshoring," which allows companies to get software development and other services at one-third to one-sixth the cost.

The Gartner Group, a market research firm, estimates that 10 percent of jobs at U.S. information technology vendors will move offshore by next year.

Throughout all U.S. companies, Forrester Research predicts the loss of roughly 3.3 million jobs by 2015.

Grove said that the move offshore has been aided by the telecommunications bubble of the late 1990s. So much infrastructure for high-speed Internet connections was laid, much of it never used, that the cost of achieving high-speed communication plummeted. As a result, Grove said, "the engineer sitting 6,000 miles away might as well be in the next cubicle."

Grove chided U.S. policymakers for all but ignoring the problem.

"What is the U.S. public policy?" he asked. "I am hard put to find a document" outlining a policy strategy.

He said he had detected no recognition of the problem from any of the presidential candidates.

Grove also criticized the nation's overburdened patent system, which he said is causing an abundance of innovation-slowing litigation.

He said that the inability of patent examiners to handle the workload has led to a backlog of important applications, but also less than thorough vetting of patents that perhaps should not be granted.

Grove also said the country lags dangerously behind in popular use of high-speed Internet connections, funding for science and technology research, and education.

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